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The Manufacturers Hanover
Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

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Slower Economic Growth . . .

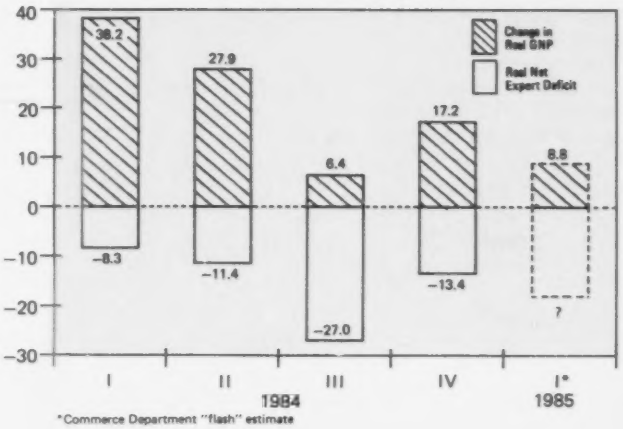
The current business expansion would seem to be losing much of the wind from its sails, if the government's "flash" estimate of economic growth in the quarter now ending is any guide. The Commerce Department reported that inflation-adjusted GNP grew at a 2.1 percent seasonally adjusted annual rate in the January-March period—less than half of the revised 4.3 percent annual rate of increase in the fourth quarter of 1984 and only half a percentage point above the third quarter's meager rise.

Of course, the flash report offers merely the government's first attempt to estimate the first quarter's growth in the nation's output of goods and services. This calculation is based on preliminary and incomplete data for about half of the January-March period and is subject to extensive revisions as more and better data become available. In the past eight quarters of the current recovery, the Commerce Department overestimated the strength of business activity three times in its flash report; in the other five quarters, it underestimated the actual number. The differences in the growth rates between the final revision and the flash estimate have ranged from −2.0 to +2.9 percentage points.

To be sure, the transition to a more moderate pace of growth is not unusual at this point in the business expansion. The current business upswing, which is now in its 28th month, is well past the halfway point of the 45-month average life span of the other eight postwar expansions. However, this flash report not only points to a sharp slowing in the momentum of the business expansion, it also implies some disturbing imbalances among the major sectors of the economy.

While the consumer sector remains buoyant, economic growth is being muted by a lower rate of inventory accumulation and severe weakness in the trade sector. In addition, the monthly economic statistics released so far for the January-March quarter point with increasing frequency to a divergence between domestic demand and production. Strong consumer activity led to a 1.5 percent rise in retail sales in February and a continuation of auto sales at a more than eight million unit annual rate in early March. Such strong sales, however, did not lead to a boost in production. Output of consumer nondurables declined 0.5 percent in February, while production of household durables fell 0.1 percent. Moreover, substantial downward revisions of the industrial production index for the preceding three months shows total output to be lower in February than it was last summer.

CHANGE IN REAL GNP VS. REAL NET EXPORT DEFICIT
(BILLIONS OF 1972 DOLLARS)



*Commerce Department "flash" estimate

. . . Reflects Rising Imports . . .

The culprit in this growing imbalance between domestic demand and production is, to a large extent, the overvalued U.S. dollar. Although the strong dollar has helped to combat inflation, it has also hurt those American producers who export their goods or who compete with imports. The mighty dollar is also motivating manufacturing companies to shift their production abroad and purchase components and finished products from foreign suppliers. At the same time, U.S. exporters are abandoning overseas markets, where sales have not been satisfactory. As a result, U.S. net exports (GNP basis) swung from a surplus of $12.6 billion in 1983 to a record deficit of $15 billion in 1984. A rising trade deficit means that more and more of domestic demand is satisfied from abroad, thus cutting into domestic output (see chart).

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Today, U.S. imports amount to ten percent of real GNP, compared with less than six percent just a decade ago. Growing imports explain why the surge of domestic demand has not led to a corresponding increase in output. Although U.S. consumers have benefited from cheaper imports, the negative effects of the overvalued dollar are now beginning to outweigh the positive impact on inflation.

Not only are U.S. consumers acquiring more foreign-made goods, but American businessmen are buying more capital equipment from foreign producers as well. U.S. industrial companies have seemingly lost their reluctance to buy business equipment from foreign sources. Imports of capital goods rose 46 percent in 1984—the sharpest jump of any major category. Not surprisingly, new domestic orders for nondefense capital goods have fallen in eight out of the past 12 months. This trend in the face of relatively strong business investment plans, particularly for business equipment, plainly reflects strong competition from imports. On the other hand, new orders for automobiles, which have been protected against rising imports by quotas, and for the defense industry, which is much less affected by imports, continue strong. Not surprisingly, the automobile and defense industries continued to grow, while most other components of industrial output have flattened or declined since last summer.

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 3/20/85	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	168.398	+ .911	+ 9.943
Loans to Depository Inst.	1.681	– .357	+ .604
Float	.329	– .177	– .762
Total Reserve Bank Credit	182.209	+ .712	+12.893
Treasury Deposits with Federal Reserve Banks	3.818	– .243	– 1.509
Currency in Circulation	179.300	– .127	+10.666
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	115.506	+ 1.152	+ .639
	3/13/85		
Member Bank Reserves:			
Total Reserves Held	40.055	+ .457	+ 3.315
Excess (Deficiency)	.751	– .055	– .020
Net Free Reserves**	.110	– .125	+ .007
		% Change Since Three Months Ago*	% Change Since Year Ago
Monetary Aggregates†			
M1 (3/11/85)	570.6	+ 11.7‡	+ 6.7‡
M2 (February '85)	2,419.3	+ 12.6	+ 9.1
M3 (February '85)	3,040.3	+ 10.9	+ 10.9
Domestic Nonfinancial Debt (4th Q'84)	5,970.8	+ 14.4	+ 13.6

†Seasonally adjusted. **Redefined. * Seasonally adjusted annual rate. ‡ Four-week moving average.

New York Money Market

Offering Rates 3/22/85	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	8.45%	8.84%	9.04%
* Federal Agencies	9.00	9.65	10.05
* Project Notes—Taxfree (46% Taxable Equivalent)	8.89	9.26	10.19
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	8.80	9.30	10.10

‡Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	8.60%	Apr.	8.75%
15- 29 days	8.65	May	8.75
30- 59 days	8.65	Jun.	8.85
60- 89 days	8.65	Jul.	8.90
90-179 days	8.78	Aug.	9.10
180-239 days	8.90	Sep.	9.10
240-270 days	8.90		
‡Industrial Paper—Prime			
30- 89 days	8.60%	†Federal Funds Effective Rate	8.65%
90-120 days	8.65		

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollar)*	4th Q'84	$ 3,759r	$ 3,695	$ 3,432
Gross National Product (1972 Dollars)*	4th Q'84	$ 1,662r	$ 1,645	$ 1,573
Percent Change, Annual Rate	4th Q'84	4.3r	1.6	5.9
Change in Consumer Prices*	Feb '85n	3.6%	2.4%	4.8%
Change in Producer Prices*	Feb '85	– 1.2%	0.0%	3.6%
Civilian Employment (Thousands of Persons)†	Feb '85	106,685	106,391	103,888
Unemployment as % of Civilian Labor Force†	Feb '85	7.3%	7.4%	7.8%
Personal Income*	Feb '85n	$ 3,141	$ 3,131r	$ 2,924
Leading Indicators Composite Index (1967=100)†	Jan '85	166.7	163.9	164.5
Industrial Production Index (1967=100) †	Feb '85	164.7	165.5	160.0
Net Change in Consumer Installment Credit †	Jan '85n	$ 7.22	$ 6.82r	$ 5.40r
U.S. Merchandise Trade Balance †	Jan '85	–$ 10.29	–$ 8.03	–$ 9.51
Plant and Equipment Expenditures*	1st Q'85	$337.85(a)	$321.40(a)	$293.15
Private Housing Starts (Thousands of Units)*	Feb '85n	1,638	1,841r	2,208
New Construction Expenditures*	Jan '85	$ 324.9	$ 318.4	$ 280.9
Total Business Inventories †	Jan '85	$ 568.4	$ 566.3	$ 518.1
Total Business Sales †	Jan '85	$ 415.5	$ 418.5	$ 401.1

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

. . . Causing Losses In Factory Jobs

The growing import penetration into U.S. markets has limited output, employment and profits in many domestic manufacturing industries. This burden has caused a sharp division in employment patterns among those sectors which produce goods and those that provide services. While total nonfarm employment is at an all-time high, the manufacturing sector has failed to make up for jobs lost during the last two recessions. On the other hand, service-providing industries, which are hardly affected by import competition, are thriving.

This divergence between the performance of the service-providing and goods-producing sectors was underscored in the February labor force data. While employment in service industries climbed a healthy 255,000, manufacturing jobs shrunk by 77,000 and the average factory workweek fell by 0.6 hours.

The rapidly growing outflow of American sales into the world market is the major reason for the slowdown in U.S. output growth. According to a recent study, the sharp appreciation of the dollar since 1980 has cost the U.S. an estimated two million jobs—1.5 million in manufacturing alone—and has cut national output by four percent. H

Short Term Paper Outstanding
(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Time Deposits of $100,000 or more Weekly Reporting Banks			
Nationwide (3/6/85)	157,034	– 137	+13,431
New York City (3/13/85)	33,421	– 191	+ 3,983
Commercial Paper (3/13/85)	248,726	+ 83	+52,449

Bank Loans
(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (3/6/85)	255,628	+ 2,342	+ 25,021
New York City (3/13/85)	61,852	– 507	+ 2,292

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (3/6/85)	662,613	+ 4,213	+ 72,423
New York City (3/13/85)	143,285	– 196	+ 11,629

Financial Markets

	Friday 3/22/85	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	8.79%	+ .10	– 1.36
180-Day Bills†	9.41	– .05	– 1.18
Longest Bills†	9.83	– .12	– 1.08
Recent Issues:			
10 3/4s 3/31/87 (When Issued)	10.75	NA	
10 5/8s 12/31/88	11.34	– .10	
11 1/4s 2/15/95	11.87	– .03	
11 1/4s 2/15/15	11.81	– .02	
Municipals:			
Bond Buyer–20 Bond Index* (3/21/85)	9.82%	+ .06	– .19
Blue List Total ($ Million)	$1,673	– $ 31	+ $ 241
30-Day Visible Supply ($ Million)	$4,291	+ $630	+ $1,942
Total	$5,964	+ $599	+ $2,183
Corporates:			
Moody's Aa Composite (3/21/85)	12.95%	– .01	– .40
30-Day Visible Supply ($ Million)	$ 880	– $220	+ $ 475
Stocks:			
Dow-Jones Averages:			
Industrials	1,267.45	+ 20.43	+ 112.61
Transportation	594.88	– 7.31	+ 91.69
Utilities	149.26	+ 2.26	+ 22.38
65 Stocks	511.41	+ 4.22	+ 58.74
Standard and Poor's 500 Stocks	179.04	+ 11.51	+ 22.18
N.Y.S.E. Composite Index	103.65	+ 1.19	+ 13.30
N.Y.S.E. Avg. Daily Vol. for Week (000's)	103,306	+ 5,770	+ 22,266

* 46% Taxable equivalent 18.19%.

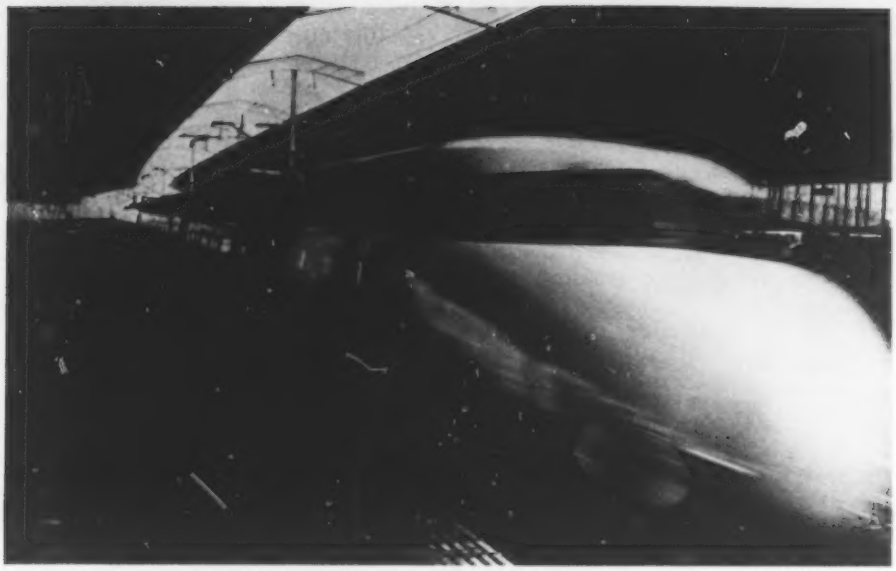
† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 3/22/85	Week Ago
Overnight	8.63%	8.50%
1 month	8.81	9.00
3 month	9.13	9.45
6 month	9.69	10.06
1 year	10.50	11.00
EURODOLLAR BONDS Average Yield		
Medium Term (5 to 7 yrs.)	11.95%	12.10%
Long Term (7 to 15 yrs.)	12.10	12.33

FOREIGN EXCHANGE SPOT RATES

New York Opening (3/22/85)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.01548	64.60
Canada	.7300	1.3698
Denmark	.08707	11.4850
France	.1019	9.8100
Germany	.3111	3.2145
Italy	.0004901	2040.50
Japan	.003922	254.98
Mexico	.004016	249.00
Netherlands	.2759	3.6250
Switzerland	.3672	2.7230
U.K.	1.1760	.8503



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